BARRETT RESOURCES CORPORATION

April 22, 1997

Minerals Management Service
Royalty Management Program
Rules and Procedures Staff
Post Office Box 25165
MS 3101
Denver, CO 80225-0165

Re: Establishing Oil Value for Royalty Due on Federal Leases, and on Sale of Federal Royalty Oil

Ladies and Gentlemen:

Barrett Resources Corporation and its subsidiary, Plains Petroleum Operating Company, hereinafter collectively referred to as "Barrett", submit the following comments in connection with the referenced proposed rulemaking.

The specific areas Barrett desires to comment on are:

1. Oil valuation in the Rockies
2. Crude oil purchases.

Barrett is an independent producer of crude oil and natural gas in the Rocky Mountain States (Colorado, Montana, New Mexico, Nevada, Utah, and Wyoming), the Mid-Continent and Gulf Coast areas, including the Gulf of Mexico. Barrett produces crude oil on several leases in which the Minerals Management Services owns a royalty interest.

1. Oil Valuation in the Rockies

Barrett believes the current oil valuation regulations in place are sufficient to properly determine the value of crude oil produced and sold from federal leases.

As an independent producer, Barrett markets its crude oil production at the wellhead and does not engage in volume exchange, nor does it participate in downstream marketing. Most of its sales are made on a negotiated basis with non-affiliated aggregator / resellers. Its production is sold under arm's-length contracts at the highest price that is obtainable. Generally, the value of crude oil is established by local refiners with no economic ties to Cushing, Oklahoma, or the NYMEX.

From a historical perspective, the price of crude oil in the Rockies is strongly influenced by supply and demand. In 1993, Barrett sold part of its Wyoming crude oil production based upon a posted price plus a bonus of $0.75 per BBL. However, during 1995 into 1996, due to increased demand, it was able to sell the same crude oil at a posted price plus $3.75 per BBL. Subsequently, due to increased supply, the bonus has dropped. These prices were not tied to the NYMEX or to a Cushing based price, but were based on supply and demand in the Rockies and the highest price Barrett could receive in an arm's-length contract. Also, there are various type crude oils which command either a higher or lower price depending upon supply and demand.

In 1988 the MMS, in the preamble to the regulations, stated "the gross proceeds to which a lessee is legally entitled under arms-length contracts are determined by market forces and thus represent the best measure of market value." The MMS now proposes to rely on the Index price that is the NYMEX price which is not based upon an arm's-length transaction. The NYMEX price is an artificial market price for the month following production that reflects an estimate of what speculators and traders believe will be the price for oil delivered in the next month at Cushing, Oklahoma. Barrett believes that arms-length contracts represent the best value of production under the Mineral Leasing Act.

2. Crude Oil Purchases

Under Section 206.102 (a)(6) of the proposed rulemaking, it is stated that:

> Even if you have an arm's-length contract for the sale of your oil, you must value your oil Paragraph (c)(2) of this Paragraph if you or any of your affiliates purchased crude oil from an unaffiliated third party in the United States in the two-year period preceding the production month.

Barrett strongly objects to this area of the proposed rules. Barrett, as a producer, in its normal course of business, purchases crude oil from unaffiliated third parties in arm's-length transactions from time to time. Specifically, Barrett purchases relatively small amounts of crude oil (50-80 BBLS) for lease usage (lubricants, frac oil, free stuck drill string, etc.) in the recompletion of existing wells and the drilling of new wells. Given the breadth of the proposed language, Barrett's *de minimis* purchases would preclude it from basing royalty calculations on its arm's-length contracts. Barrett submits that the purchase of crude oil for lease usage should not preclude a producer from paying royalty based upon its arm's-length contracts.

In closing Barrett, as a member of IPAMS (Independent Petroleum Association of Mountains States), strongly supports IPAMS' position on the proposed rulemaking, as presented at the public hearing in Lakewood, Colorado on Tuesday, April 15, 1997.

Barrett is willing to supply additional information, and please contact the undersigned at (303) 606-4250 if you have any questions.

Sincerely,

BARRETT RESOURCES CORPORATION

Bryan G. Hassler
Vice President - Marketing

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